REPORT
OF
THE MINISTER'S ADVISORY COMMITTEE
ON
MUNICIPAL FINANCE

July 30, 1982

Hon. M.E. Moore
Minister of Municipal Affairs
423 Legislative Building
Edmonton, Alberta
T5K 2B6

Dear Sir:

We have the honor to present herewith, the report of your committee on Municipal Finance.

We will be pleased to meet with you to discuss the recommendations contained in the report at your convenience.

Respectfully submitted,

MAYOR H.E. Impey

REEVE L.N. Miller

REEVE T.N. Musgrove

ALDERMAN J. Oldring

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INTRODUCTION

The terms of reference for the Minister's Advisory Committee on Municipal Finance, shown on page 4 of this report, had two main thrusts:

1. to study long-range aspects of provincial-municipal fiscal relationships, and to make recommendations for restructuring and improving these relations; and
2. to make recommendations concerning grant programs and revenue distribution.

Members of the Committee were:

Reeve L. N. Miller	Alberta Association of Municipal Districts and Counties
Reeve T. Musgrove	Alberta Association of Municipal Districts and Counties
Mayor H. E. Impey	Alberta Urban Municipalities Association
Alderman J. Oldring	Alberta Urban Municipalities Association.

Resource personnel to the Committee were L. G. Morrison, Alberta Treasury; J. M. Fleming and T. J. Lauder, Alberta Municipal Affairs.

J. M. Fleming was elected chairman and T. J. Lauder coordinated the compilation of materials for the Committee. Margaret Suelzle acted as Committee secretary.

The Committee started work in April 1981 and, to prepare its report, examined data and other information obtained largely through contacts made by Committee members. The members also brought their own expertise to bear.

The Committee would like to express its appreciation to the special advisors for the staff work and information provided. Thanks is also extended to members of the respective associations who provided input, all of which greatly assisted the Committee in its deliberations. A submission from the School of Economic Science and Social Philosophy is also acknowledged with thanks.

The Committee's report falls into four sections:

I. Provincial-Municipal Fiscal Relationships
This section addresses the nature of the present situation and establishes the basic principles on which the report's recommendations are founded.

II. Priority Recommendations
These are considered by the Committee to be paramount in meeting the objectives inherent in the terms of reference.

III. Supplementary Recommendations
These address concerns not covered in the Priority Recommendations but which could contribute much to improving the capability of municipal councils to meet their obligations and responsibilities.

IV. Review of Previous Reports and Papers
The review of two documents relating to provincial-municipal relationships was requested in the terms of reference. In particular, this section comments on recommendations made in the Provincial-Municipal Finance Council Report.

The Committee, in its deliberations, considered several additional revenue source possibilities:

- hotel room tax
- lotteries
- liquor tax
- motor vehicle license surcharge
- speculation tax.

The Committee did not make recommendations on these sources, however, consideration should be given to passing enabling legislation for expansion of optional tax sources for municipal use.

TERMS OF REFERENCE

Committee Name: The Minister's Advisory Committee on Municipal Finance

II Study Area

The Committee will study aspects of provincial-municipal fiscal relationships to determine whether such relationships are simple, clear, equitable, adequate and as conducive to the sound growth of the municipal government sector as can be devised, within prudent long-range provincial financial capabilities.

Specifically, the Committee should examine and determine the validity and feasibility of presentations and make recommendations concerning:

1. the Provincial-Municipal Finance Council Report;
2. the Plain-McMillan Report on Reform of Provincial-Municipal Fiscal Relationships, prepared for the Alberta Urban Municipalities Association;
3. the existing provincial capital and operating grant programs, conditional and unconditional, including the objectives and consequences of each program;
4. the existing and potential avenues for sharing some provincial revenues excluding natural resource or income tax.

The Committee will consider and make specific recommendations for restructuring and improving provincial-municipal relationships.

III Time Frame

One year, or as required.

SECTION I

PROVINCIAL-MUNICIPAL FISCAL RELATIONSHIPS

A. Current Situation

B. Principles for Improvement

C. Actions Required

I PROVINCIAL-MUNICIPAL FISCAL RELATIONSHIPS

In considering provincial-municipal fiscal relationships, the Committee came to the firm conclusion that there is no clear delineation of provincial and municipal functional responsibilities. The proposition that municipal governments should provide services to property and that the provincial government should provide services to people is not totally workable.

In its examination of this dilemma, the Committee first listed the most significant factors in the situation as it exists today and then focussed on the principles it believes must be applied to improve the situation in the future. Finally, the Committee determined the actions which it feels are required to implement the principles for improvement. These action requirements are the recommendations contained in Sections II and III of this report.

A. Current Situation

1. The requirement for, and the provision of, local services varies greatly and is not necessarily the same in all municipalities.

2. Municipalities operate primarily in a state of dependency on provincial transfers and on a limited tax base.

3. The Government of Alberta has recognized that municipalities are often the best vehicle for the effective delivery of essential programs throughout the province.

4. The Government of Alberta recognizes service needs on a province-wide basis and encourages the delivery at the local level of programs to fill these needs.

Conditional funds are made available to municipalities to finance these programs. In most cases, municipal cost-sharing is a requirement in this procedure, which calls for the ongoing commitment of municipal funds from a limited revenue base.

5. Conditional grant programs are developed separately by departments of the Provincial Government through the budget process to fulfill Provincial Government priorities. There is no overall interdepartmental coordination of grant programs for municipalities. Furthermore, when new funding programs are being developed, municipal authorities are seldom consulted in advance, nor are they given any advance notice.

   This situation impacts on municipalities by:

   - distorting municipal program priorities;
   - hampering long-range programming and budgeting; and
   - placing pressure on municipal councils from self-interest groups.

B. Principles for Improvement

1. Municipalities operate under the authority of enabling legislation. Although they are subordinate legislative authorities, it is essential, in view of the variance in services needed from one municipality to another, that municipalities have a high degree of autonomy in determining what local services should be provided, and how these services should be delivered.

More importantly, municipalities must have the capacity to finance these services. Recognizing the finite limits of available funding, municipalities must establish their own priorities without undue influence from provincial priorities.

2. The Government of Alberta and the province's municipal governments should operate as cooperating partners, with a high sense of fiscal accord.

3. It is essential to good provincial-municipal fiscal relationships that the revenue sources available to municipalities be sufficient to meet municipal needs. This will enhance municipal accountability and reduce ad hoc requests for provincial funding.

4. The municipal revenue base should include:

   - a property tax dedicated primarily to municipal purposes;
   - various optional own-source revenues; and
   - a comprehensive and coordinated system of provincial transfers to supplement municipal finances.

5. Provincial transfer programs to municipalities should be:

   - unconditional to the greatest extent possible;
   - conditional only to the extent necessary to meet provincial objectives;
   - predictable, to enhance budget planning for both levels of government;
   - flexible, to accommodate changing needs and allow adjustments to budget priorities;
   - easily understood by the public as well as by governments; and
   - simple to administer.

6. Provincial transfers should not unduly interfere with program delivery, nor should they adversely impact on municipal priorities.

C Actions Required

This report contains three priority recommendations which the Committee feels are of prime importance in meeting the needs of the future. They relate to the school foundation levy, school requisitions and grant consolidation.

The Committee believes that implementation of these priority recommendations would, if combined with the supplementary recommendations in this report, provide the opportunity for a new and dynamic approach to the fiscal aspect of provincial-municipal relationships. This approach would provide a stable financial future for local governments by:

- removing uncertainties in the amounts and timing of funding;
- placing greater fiscal responsibility on municipal councils to determine the use of available funding through development of multi-year budgets and other mechanisms; and
- providing the resources required by councils to meet their fiscal responsibilities.

Implementation of the recommendations in this report would call for a greater degree of cooperation between departments of the Provincial Government which provide grants and monies to municipalities. At the same time,

these recommendations, if approved, would call for a greater sense of partnership between the provincial and municipal levels of government.

The Committee recognizes that, in large part, the recommendations do require the infusion of provincial money. The Committee found no other option open to it, without the use of taxing and revenue sharing powers which are not at this time available to municipal governments. (The terms of reference of this Committee precluded the examination of income tax and resource revenue sharing options.)

Several recommendations concern only structural modifications and adjustments. These would not require the use of provincial money. Rather, they are designed to enhance the equity of the cost burden and improve the operational flexibility of municipal governments throughout Alberta.

SECTION II

PRIORITY RECOMMENDATIONS

1. School Foundation Levy

2. Limiting School Requisitions

3. Grant Consolidation

II PRIORITY RECOMMENDATIONS

RECOMMENDATION ONE: School Foundation Levy

That the Government of Alberta assume full responsibility for the School Foundation Program Fund financing.

(a) That the provincial levy on commercial and industrial properties which raises school foundation funds be continued, and that these funds be redistributed to municipalities.

(b) That municipal authorities should be responsible and accountable for the purpose and manner in which these funds are to be used.

The Committee recognized that if the Provincial Government does find it desirable to provide these monies for municipal uses, it may also find it desirable to institute an equalization system for distribution. The effect would be to greatly assist in redressing the current revenue shortfall in municipal operations.

This recommendation, if accepted, would provide an expanded revenue base for municipalities to fund facilities and services without impacting additionally on property taxes, which are currently increasing substantially each year.

If implemented in 1982, this recommendation would represent an unconditional transfer to municipalities of an estimated $144,000,000.00.

Based on available province-wide figures for 1980, the school foundation levy raised a total of $101,553,324 in revenue. The bulk of this revenue, $58,356,216 came from cities in the province, as shown below:

		As a Percentage of 1980 General Municipal Operating Revenue
cities	$58,356,216	5.43
towns	9,572,676	4.54
villages	1,323,194	4.21
counties	15,703,590	7.10
municipal districts	5,258,492	6.15
improvement districts and special areas	11,339,156	12.64
	$101,553,324	

The provincial budget anticipates the levy in 1982 will reach $144,130,000, an increase of approximately forty-two percent over the 1980 figure, The release of this capacity on an unconditional basis to the municipalities would result in a general operating revenue increase of a substantive nature, as demonstrated in the percentages included in the table above.

The pool, when established, should be adjusted each year to recognize growth and changes in the provincial economy.

While these percentages of themselves are not extreme, they would represent the addition of badly needed dollars to be used at the discretion of municipal councils.

RECOMMENDATION TWO: Limiting School Requisitions

(a) That the Government of Alberta introduce legislation to limit school supplementary requisitions to a maximum of 20% of the consolidated municipal tax levy.

(b) That requirements of school authorities in excess of this amount be met from provincial funds, if approved by the Department of Education.

In 1973, the Government of Alberta caused a dramatic increase in municipal financing capability by removing the school foundation levy from residential and farm property. This action increased revenues for municipal purposes for all municipalities. However, since 1974 school requisitions have increased annually on an accelerating basis. These requisitions have now reached the point where, in some cases, they exceed the levy for municipal purposes (see Figure 1 on page 19).

Municipal councils feel constrained from allowing the property tax bill to become inordinately high, while the only portion of that bill over which they have control is the municipal portion. As a result of this feeling of constraint, and of increasing school requisitions, municipal funding has suffered a decline. The reduced funding capability of municipalities is evidenced by the increasing demands which local governments are placing on the Provincial Government.

The recommendation on limiting school requisitions is brought forward as a result of inordinate increases in supplementary school requisitions. The present situation arises because, by regulation, school authorities are permitted either:

(a) to increase their annual requisition based on a percentage of the previous year's dollar requisition (at 1982, 11%); or

(b) to increase their annual requisition based on a percentage of the mill rate which, in turn, is based on the equalized assessment (at 1982, 11%).

With these two options available, school authorities generally opt for the mill rate increase because of the growth in assessment base. Use of this option has accelerated school requisition demands. When, in 1980, equalized assessments were indexed, school requisitions became excessive.

The compound effect of these factors can best be explained in this way: The regulation governing school requisitions for 1982 permits an eleven percent increase in mill rate over the 1981 figure, while the indexing of equalized assessment caused an increase in that base approximating ten to fifteen percent. When these percentages are added together, school requisitions will, in 1982, be permitted an increase in excess of twenty percent. In some municipal jurisdictions, when this increase is converted to a live assessment base, school requisition costs have increased fifty percent and more over the previous year.

In a rural municipality, the situation can be even more severe. The revised 1980 assessment manual has made necessary an increase in farm land assessment. The farm land assessment figure has been changed, for equalization purposes, from $40.00 per acre to $86.00 per acre, over three years, thus requiring a thirty-eight percent per year increase in the land values.

In itself, this adjustment of assessments is a worthwhile process because it more accurately reflects current values;

when used for municipal purposes, it causes no great inequities. However, the equalized assessment figures are used as a base for determining school requisitions. The natural course for school authorities is to maximize their revenues and, in so doing, they have caused an inequity which has placed a severe hardship on municipal operations.

This adjustment of assessments also results in shifts of taxation impact on some classes of property.

Example: In one northern Alberta rural municipality, from 1979 to 1981:

- the live assessment increased 1.23%
- the equalized assessment increased 114%
- the supplementary school requisitions increased 110%.

Such school cost increases are unacceptable in times of restraint, when municipal councils are attempting to hold total tax rate increases to twelve to fourteen percent, and are required to levy in excess of this figure for school cost increases.

Several implications relating to the implementation of this recommendation require comment:

- Property taxpayers would not be subject to rapidly increasing school supplementary requisitions.
- School supplementary requisitions would be calculable and predictable.
- Multi-year budgeting would be facilitated (see Recommendation Six).
- Early preparation of municipal budgets and the levy of taxes will be facilitated.

- Additional provincial funding through Alberta Education would be required.
- Alberta Education would be required to establish guidelines and review requests from school jurisdictions for funding in excess of the limit imposed by the recommendation.

FINANCING IMPACT ON PROVINCIAL GOVERNMENT

In 1979

Consolidated Tax Levy	=	$ 739,059,762
20%	=	$ 147,811,952
Supplementary Requisition	=	$ 203,715,237

In 1979

Requisition from Education with review and approval	=	$ 55,903,285

In 1980

Consolidated Tax Levy	=	$ 808,610,725
20%	=	$ 161,722,145
Supplementary Requisition	=	$ 224,616,259

In 1980

Requisition from Education with review and approval	=	$ 62,894,114

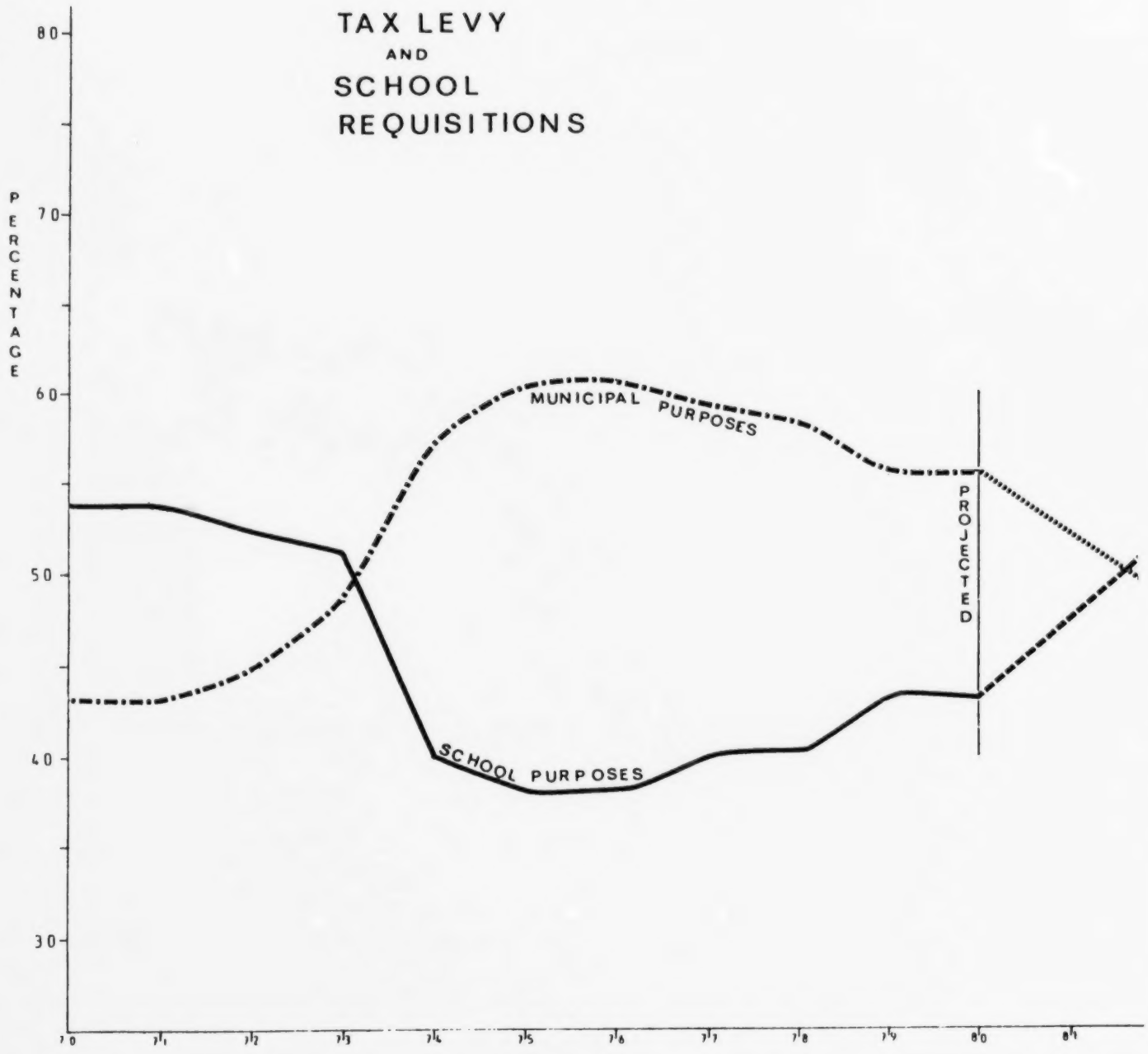
TAX LEVY
AND
SCHOOL
REQUISITIONS
PERCENTAGE
80
70
60
50
40
30
MUNICIPAL PURPOSES
SCHOOL PURPOSES
PROJECTED

FIGURE 1

RECOMMENDATION THREE: *Grant Consolidation*

That a grant consolidation policy be introduced, in which:

(a) *The province provides conditional transfers to municipalities only for those programs deemed essential to the provincial interest for delivery on a province-wide basis.*

(b) *All other existing and future grant programs be consolidated to form an unconditional municipal funding source, this fund to be adjusted annually in accordance with changing economic circumstances.*

(c) *Grant programs established for capital facilities include a component for support of annual operating costs.*

(d) *As far as possible, new proposed grant programs for municipalities should be established with prior consultation of the municipal associations.*

(e) *Provincial funding programs for municipalities be promulgated well in advance of municipal budget preparation, indicating amounts, availability and prerequisites.*

The Government of Alberta, through its many grant programs, has provided municipalities with a form of revenue sharing. This sharing is largely of a conditional nature and restricts the flexibility of local governments in applying funds in the areas perceived to have the greatest need.

Furthermore, within this framework, many grant programs exist to assist the development of capital facilities. Yet there are almost no grant programs for operations of these capital facilities, nor for the repayment of local capital obligations.

Councils are beleaguered by self-interest groups who, encouraged by their M.L.A.'s, demand that provincial capital funds be obtained to build capital facilities, with little thought being given to the ultimate operational impacts on municipal budgets. Municipal councils feel tremendous pressure being brought upon them when programs of capital assistance are announced. These programs seem to provide free facilities or facilities at substantially reduced costs. This situation is particularly critical in small jurisdictions.

In this environment, the Committee isolated three areas in which action should be considered:

(a) A review should be conducted of all grants available through provincial agencies. Grants which are not inexorably linked to programs which establish or maintain province-wide standards should be converted to unconditional grants.

(b) All grants which are ultimately included in the unconditional grant pool should be adjusted annually by a percentage to reflect changes in the provincial economy.

(c) The distribution of this grant pool should be made on a formula basis, having components which would recognize:
   - population;
   - differing fiscal capacity.

(d) The Committee has recognized that the implementation of this recommendation will require extensive coordination and has agreed that administration of the pool should be done through the Department of Municipal Affairs, which department currently administers the Municipal Assistance Grant.

This three-part arrangement would provide an annual allocated transfer of provincial money for each municipality to finance programs within its established priorities. Each municipal council would be entirely responsible and accountable to its electors for the judicious use of these provincial funds to meet the changing needs of the community.

Additionally, problems are compounded in municipal financing, both operational and capital, by uncertainties related to the amount, timing and availability of provincial funding. These uncertainties plague councils throughout the year; they do not know what money will be available, for what programs, or at what time funds will be delivered. Budgeting and financial planning become "a guess and hope for the best" system.

These uncertainties would be greatly reduced by adoption of this recommendation on grant consolidation.

The Committee recognizes that the Provincial Government has the right and the obligation to institute programs which it sees to be necessary and desirable. However, within a very short time, a program becomes an inseparable part of the municipal fabric, regardless of the funding source. When such a program has been established and operating for a time, the applicable grant should be moved to the category of unconditional grant. The municipality should then become responsible for its continuation or its termination, as circumstances in the local area dictate.

The Committee has reviewed the grant programs available through the Provincial Government and has categorized these into two groups. These grants and the grouping of each are shown in Table 1, which starts on page 25. Here are the groups:

(a) Grants designated C Cap (Conditional Capital) should be retained in their present form, as they establish and maintain high provincial standards.

(b) Grants designated UO (Unconditional Operating) could be used to establish the unconditional grant pool proposed in this recommendation.

The designation N/A indicates information on funding was not available at the time this report was prepared. In some cases the Committee felt it appropriate to designate these grants to one pool or the other however, in other circumstances either for lack of information or because these grants are of direct assistance to individuals, the Committee did not categorize them.

The creation of a large pool of grant funds classified as unconditional will require extensive cooperation between the many government departments which now provide programs of assistance to municipal governments.

The chief problem likely to be encountered would be the determination of which grants should be included in the unconditional pool without having serious detrimental effects on the original programs. This process may require the full cooperative efforts of the executive council.

The Committee believes that, overall, implementation of this recommendation would simplify the administration of local government. Furthermore, local politicians would become more responsible for the services provided in their regions.

The funding would enable ongoing program evaluation to be undertaken by local councils. In addition, Members of the Legislative Assembly would be afforded the opportunity of reviewing perceived local needs and participating in their solution.

TABLE 1

GRANTS AVAILABLE FROM ALBERTA GOVERNMENT AGENCIES

Funding for 1981-82

(Source: Alberta Municipal Assistance Programs 1981)

ADVANCED EDUCATION AND MANPOWER			
1.	Summer Temporary Employment (STEP)	$ 1,750,000	UO
AGRICULTURE			
1.	Agricultural Service Board Program	3,500,000	UO
2.	Agricultural Societies Capital Grant	n/a	UO
3.	Agricultural Societies Operating Grant	n/a	UO
4.	Bacterial Ring Rot Control Policy	n/a	UO
5.	Rat Control	150,000	UO
6.	Seed Cleaning Plant Program	350,000	UO
CULTURE			
1.	Cemetery Restoration Assistance Program	60,000	UO
2.	Historical Publication Assistance Program	50,000	UO
3.	Local Historic Resource Assistance Program	45,000	UO
4.	Provincial Historic Resource Assistance Program	384,588	UO
5.	Registered Historic Resource Assistance Program	n/a	UO
6.	Special Historical Project Assistance Program	2,000	UO
7.	Municipal Inventory Assistance Program	n/a	UO
8.	Provincial Inventory Assistance Program	15,000	UO
9.	Museum Assistance Program	417,010	UO
10.	Senior Citizens Facility Grant Program	n/a	UO
11.	Library Grant	7,757,000	UO
DISASTER SERVICES			
1.	Cost-Shared Equipment Program	100,000	UO
2.	Disaster Preparedness Financial Assistance Grant to Municipalities	265,500	UO
ECONOMIC DEVELOPMENT			
1.	Railway Facility Relocation	n/a	

ENVIRONMENT			
1.	Biting Fly Control Financial Assistance Program	$ 550,000	UO
2.	Alberta Municipal Water Supply and Sewage Treatment Grant Program	75,000,000	C Cap
3.	Regional Water and Sewage Grant Program	20,000,000	C Cap
4.	Financial Assistance for Water Management	6,000,000	UO
5.	Oil Recycling Grant	n/a	UO
6.	Reclamation Program for Derelict Land	3,650,000	UO
7.	Alberta Solid Waste Management Assistance Program	2,700,000	UO
HOUSING AND PUBLIC WORKS			
1.	Alberta Municipal Housing Incentive Program	12,000,000	C Cap
2.	Grants-in-lieu of Taxes	n/a	
HOUSING CORPORATION			
1.	Community Housing Program	59,400,000	C Cap
2.	Alberta Industrial Land Program	5,000,000	C Cap
3.	Residential Land Assembly and Development Program	59,400,000	C Cap
4.	Senior Citizen Lodge Program	25,100,000	C Cap
5.	Senior Citizen Self-Contained Program	106,400,000	C Cap
6.	Lodge Assistance Program	2,250,000	C Cap
HOME MORTGAGE CORPORATION			
1.	Revolving Trunk Servicing Program	50,000,000	C Cap
MUNICIPAL AFFAIRS			
1.	Homeowner Refund	27,566,000	
2.	Interest Stabilization Grant	43,000,000	UO
3.	Municipal Assistance Grant	78,914,447	UO
4.	Property Tax Reduction	n/a	
5.	Senior Citizen Renter Assistance Grant	28,566,000	
6.	Senior Citizen Owner Occupied Mobile Home Renter Assistance Grant	n/a	
RECREATION AND PARKS			
1.	Major Cultural/Recreation Facility Development Program	23,000,000	UO
2.	Operational Financial Assistance Program	6,600,000	UO
3.	Project Cooperation	3,300,000	UO
4.	Provincial Parks Municipal Recreation Grant	n/a	UO
5.	Recreation Work Experience Program	170,000	UO
6.	Trail Development Financial Assistance Program	30,000	UO

SOCIAL SERVICES AND COMMUNITY HEALTH			
1.	Alberta Day Care Program	$ n/a	
2.	Integrated Day Care	927,952	
3.	Preventive Social Services (1980-81)	10,100,000	
4.	Social Allowance for Employables	60,000	
5.	Summer Recreational Program for the Handicapped	n/a	
6.	Family and Community Support Services	18,800,000	
SOLICITOR GENERAL			
1.	Law Enforcement Grant	27,742,500	UO
2.	Liquor Control Act	150,000	UO
3.	Municipal Police Building Subsidy	400,000	UO
4.	Police Phase-In Grant	150,000	UO
5.	Summer Village Policing	18,000	UO
TOURISM AND SMALL BUSINESS			
1.	Alberta Locations Program	n/a	UO
ALBERTA TRANSPORTATION			
Cities			
1.	Urban Transportation Program Package	n/a	
2.	Arterial Roadways Capital Assistance	38,430,000	C Cap
3.	Grant-in-lieu of Public Transit Operating Assistance	n/a	UO
4.	Major Continuous Corridors	45,490,000	C Cap
5.	Primary Highway Maintenance Grant	n/a	C Cap
6.	Public Transit Capital Assistance	42,664,000	C Cap
7.	Railway/Highway Grade Separation Structure Assistance Program	7,500,000	C Cap
8.	Transportation Systems Management	1,500,000	UO
9.	Urban Signing Project	1,800,000	UO
10.	Research and Development	1,500,000	UO
Smaller Urban and Rural Communities			
1.	Alberta Airport Development Program	9,400,000	C Cap
2.	Alberta Hamlet Street Assistance Program	1,000,000	C Cap
3.	Culvert Installation Grant	275,000	UO
4.	Public Transportation Operating Assistance Grant Program	n/a	UO
5.	Grants to Counties and Municipal Districts	24,071,400	C Cap
6.	Railway Crossing Improvement Program	n/a	C Cap
7.	Street Assistance Program	8,000,000	C Cap
UTILITIES AND TELEPHONES			
1.	Utilities Officer Program	840,000	UO

SECTION III

SUPPLEMENTARY RECOMMENDATIONS

1. Tax Installment Payments

2. Split Mill Rate

3. Multi-Year Budgeting

4. Break-Even Operations

5. Property Transfer Fee

6. Financing Transportation Right-of-Way

III SUPPLEMENTARY RECOMMENDATIONS

RECOMMENDATION ONE: Tax Installment Payments

(a) *That section 117, Municipal Taxation Act, subsection (6), be amended to permit the levy of penalty thirty (30) days following the mailing of tax notices.*

(b) *That a subsection be added to section 115, Municipal Taxation Act, permitting installment payments on taxes to the municipality with appropriate penalties for late payments.*

Municipal expenditures for operations are basically level on a month-to-month basis with, of course, some variations. The outflow of funds begins in January and continues through to December. The cash flow problem arises because tax revenues are not received in any significant amount until mid-summer or later. Meanwhile expenditures have been ongoing since the beginning of the year.

Municipal legislation does permit short-term borrowing to meet financial needs in the early months of the year. However, the costs associated with short-term operational financing are, to say the least, substantial. These costs could be considerably reduced if cash flow could be improved.

Cash flow can be improved in two ways:

(a) by permitting the levy of a penalty on taxes within thirty (30) days of the mailing of the tax notice; and

(b) by permitting by statute a system of installment payments, with appropriate penalties for late payment.

Permissive legislation allowing the levy of a penalty thirty (30) days following the mailing of tax notices, especially taking into account the current penalty rate of eighteen percent, would provide an incentive toward prompt payment of taxes, thus improving municipal cash positions.

If there were statutory permission in Alberta for installment payment of taxes, with appropriate penalties for late payment, the cash flow problem in the first six months of the year would be considerably reduced, if not eliminated.

The infusion of funds early in the calendar year would greatly assist municipalities in their need for operating monies and would reduce or eliminate the short-term financing costs which occur from January to June in each year.

In recent years more and more mortgage companies have ceased collecting property taxes as part of the monthly payment. This change in practice now forces taxpayers to meet a larger annual lump sum payment. Therefore, taxpayers who are accustomed to making monthly payments will also benefit.

RECOMMENDATION TWO: *Split Mill Rate*

That the Municipal Taxation Act, section 96(1)(c) be amended to read:

> *"May if it so wishes, provide for the further classification of property into two or more different classes on any basis it considers proper."*

The Municipal Taxation Act, section 96(1), provides for the classification of property as residential and non-residential. Section 96(1)(c) permits the further classification of residential property into two or more different classes.

The Committee believes additional flexibility in mill rates for commercial/industrial properties would be advantageous in addressing inequities which have occurred. The proposed amendment contained in this recommendation would permit a municipality to adjust for local anomalies which distort the normal burden of taxation.

While this amendment would provide municipalities with a certain amount of flexibility, it would be necessary to provide a process whereby all ratepayers, including commercial/industrial ratepayers, could launch appeals of assessment and/or classification.

In providing a mechanism for addressing grievances, the system may provide for a multiplicity of applications which, although directed toward assessment and classification, would in fact be appeals of taxation.

RECOMMENDATION THREE: Multi-Year Budgeting

That each Alberta municipality be required to prepare a multi-year budget indicating its:

(a) capital program budget;

(b) operating budget including impact of the capital budget.

For some years, recognition of the municipal budget as a tool for future planning and as a document which authorizes expenditures has been accepted as the norm. The Committee believes that the planning function should be extended and reinforced by the Provincial Government to encourage each municipality to produce multi-year capital and operating budgets. Such budgets should cover at least three and preferably five years. It should contain an operating component for each capital item.

The requirement that municipalities determine, prior to budget approval, the anticipated effect on future operations of a proposal for capital expenditure would serve as a worthwhile reference on the commitment required in the years ahead.

The review process associated with the preparation of a multi-year budget would improve the awareness of municipal councils on the effect their decisions would have on residents in the future.

Implementation of the multi-year budgeting concept would assist both municipal councils and the Provincial Government by providing a forward look at operating costs. The process would considerably reduce

(a) the likelihood of unanticipated expenditures in the future; and

(b) the possible need for inordinate mill rate increases, or for other fiscal assistance.

RECOMMENDATION FOUR: Break-Even Operations

That certain municipal enterprises be required to operate, at least on a break-even basis, without contribution from general revenues. These enterprises to include:

(a) water systems

(b) gas systems

(c) electrical distribution

(d) telephone system.

In addition, adult and commercial recreation facilities should be operated on the user pay concept.

This recommendation is made in recognition of the principle applied in hamlets, where residents are required to totally support water and sewer systems constructed for their benefit. This requirement relieves other residents of the municipality from making general revenue contributions to the operation of these systems.

The Committee finds this break-even principle to be just and equitable and feels it should be put into general use.

Extension of this principle is a step toward the user pay concept. Application of user pay not only assists in equitable distribution of services costs, but provides an effective vehicle for improving public attitudes on conservation; the higher the cost of a service or product, the more critically its need and use is reviewed.

Implementation of this recommendation would be virtually cost free, since the effect would be to redistribute the burden of any enterprise to those who receive the benefit.

In addition, the Committee feels that application of the break-even or user-pay principle would invoke greater fiscal prudence in planning new enterprises; the question of real need as opposed to preferred want would, of necessity, be thoroughly debated.

RECOMMENDATION FIVE: Property Transfer Fee

That the Government of Alberta provide enabling legislation to permit municipalities to levy a fee on property transfers.

In its review of additional sources of revenue, the Committee concluded that some form of property transfer fees should be permitted, at the option of municipal authorities. The optional aspect of this proposal was selected because the Committee recognized that not all municipalities may wish to impose fees of this type for reasons best determined at a local level.

A property transfer fee could be based on several available sources of information:

(a) sale price;

(b) assurance fund values;

(c) assessed values.

The fee could be established as:

(a) a percentage of any of the above;

(b) a percentage of the above in excess of a base value;

(c) a percentage of only certain classes of property.

The Committee believes that a transfer fee of one-half of one percent would not deter sales of property. The burden would be a small part of any property transaction. For example, a

property transfer fee of 0.50% on a purchase price of $70,000 is $350. In effect, such a fee would represent $500 of revenue to a municipality for every $100,000 in property sales.

Any one property transfer fee may be a small portion of a sales transaction. However, collectively such fees could represent a major fiscal benefit to municipalities. For example, in 1981 the Assurance Fund Values of property transfers in the Northern Alberta Land Registration District were slightly less than $6,000,000,000. Had the transfer fee option been available and fully applied to these transfers, revenue of $30,000,000 would have accrued.

Such a revenue source would be subject to fluctuation with changes in economic conditions. It would shrink during depressed times. However, the converse is also true in that during periods of expansion, when needs are increasing, revenue would increase.

To implement this recommendation the Government of Alberta would be required to enact legislation similar to the Land Transfer Tax Act, 1974, being Chapter 8 of the Statutes of Ontario, 1974, as amended.

The Provincial Government would become responsible for collection of fees at the time of registration. Funds collected would then be distributed to the municipalities.

A municipality would receive the distributed funds as unconditional revenue, to be used in the manner deemed by its council as being in the best interest of its residents.

It is recognized that, because of the permissive nature of the proposal, in which municipalities have the choice of opting

in or opting out, the accounting system would be moderately complex. To balance this, it is proposed that collection fees be levied by the Provincial Government. These would be deducted before funds were distributed to municipalities.

RECOMMENDATION SIX: *Financing Transportation Right-of-Way*

That the existing arterial road program be expanded to include right-of-way acquisition throughout the province.

Major transportation projects require massive capital input. This requirement would be considerably reduced if long-range planning identified provincial and municipal right-of-way needs at an early stage. This would allow municipalities to reserve needed lands well in advance of development.

There are costs associated with such a program and these are often too extensive for the local government to meet. The Provincial Government may consider establishing a right-of-way program in addition to the existing arterial road program for cities. This would assist progressive planning of future needs and assist in financing holding costs, thus ensuring that future transportation requirements would be met at a resonable cost to local residents and the province. The expansion of the existing program to encompass all right-of-way requirements would be mutually advantageous to all concerned.

SECTION IV

REVIEW OF PREVIOUS REPORTS AND PAPERS

IV REVIEW OF PREVIOUS REPORTS AND PAPERS

As called for in the terms of reference, the Committee undertook a review of the Provincial-Municipal Finance Council Report and its recommendations. The Committee also reviewed the Plain-McMillan Report which dealt with provincial-municipal fiscal relationships from an urban perspective.

The report was commissioned by the Alberta Urban Municipalities Association and was supported by that group. This Committee has dealt with some concerns raised in the report and has attempted to broaden these to include an acceptable prospective for all municipalities.

Many of the recommendations contained in the Provincial-Municipal Finance Council Report have been implemented either as recommended or with some modifications. There are recommendations which have not yet been acted upon.

The Committee feels that further consideration should be given to the following three recommendations in the report with the intent that implementation would follow.

RECOMMENDATION #23 (PMFC)

"Farm residences, that is, residences located on farmland, be subject to property assessment and taxation in the same manner as all other residences. (Note that this recommendation is not accepted by all members of the Finance Council. See Minority Report of the Executive of the Alberta Association of Municipal Districts and Counties, page 352)."

Recent amendments to the Municipal Taxation Act and Regulation 346/80 have, to some extent, met the objectives of this recommendation. The consensus of the Committee was that the amendment and regulation should be given a fair and adequate trial. Regulation 346/80 is viewed as a step toward ultimate implementation of Recommendation #23 (PMFC).

RECOMMENDATION #24 (PMFC)

"Sections 93(13), 80(2) and 80(3) of the Municipal Taxation Act be repealed so that machinery and equipment is liable to property taxation in all municipalities and so that premises containing machinery and equipment are treated the same as all other premises for business taxation purposes."*

The Committee agreed to recommend implementation of this recommendation.

RECOMMENDATION #30 (PMFC)

*"A program similar to the Industrial I.D. Tax Transfer Program not be implemented with regard to industries located in counties or municipal districts, but that the municipalities themselves undertake to make any necessary tax-sharing agreements with regard to municipally-imposed taxes as provided for in section 114(1) of the Municipal Government Act."**

This recommendation is strongly supported by the Committee which recognizes that the impetus for such agreements must start at the municipal council level. The Committee recommends that the Government of Alberta lend strong support to all municipalities which initiate discussions in this area. Agreements reached between municipalities foster increased cooperation and harmony to the advantage of all concerned.

**Amended to R.S.A. 1980 section numbers.*